



**THE GREAT ECONOMIC HOLE  
SPEECH ON THE FLOOR OF THE U.S. HOUSE OF REPRESENTATIVES  
CONGRESSMAN BARNEY FRANK  
April 02, 2009**

Mr. FRANK of Massachusetts

Thank you, Mr. Speaker. I want to address what is one of the major issues that is now confronting the country. We have the problem of digging out from under the great economic hole in which we find ourselves, not just here but worldwide. But as we do that, it is important that we take steps to make it much less likely that we'll be in such a difficult spot again. It's a hard thing to do simultaneously--to recover from a serious problem and also to prevent its recurrence.

I want to talk today about what we have to do to prevent its recurrence. Now, obviously, to prevent its recurrence, you need to have some sense of what caused the problem. There are two competing theories. The one that I believe, that the President believes, that he is in Europe today discussing -- and which a wide variety of European thinkers somewhat inaccurately today said on the floor from the other side -- it was the socialists in Europe who were pushing the President. Well, those socialists were primarily the conservative Christian Democratic Chancellor of Germany and the conservative Gaullist President of France. They are the ones who were saying we have to come together and improve financial regulation.

In England, when I became the chairman of the committee-in-waiting in 2006 after that election, I was told that we in America should emulate Great Britain. I was told this by conservatives, by people in the financial industry. Great Britain, we were told, had the financial services authority that used the light touch when they regulated.

The head of the financial services authority recently announced the era of light touch, of soft touch regulation is over. That bastion of regulatory flexibility now says we erred with too little regulation. Unregulated credit default swaps. Collateralized debt obligations. Financial entities largely unregulated taking on far more debt than they could pay is a major cause of the problem.

Now, how do we get there? There is to some extent agreement on one particular aspect of this. And that is that it was the proliferation of subprime mortgages to people who could not repay them that was at the root of the problem. The mortgage loans were made to people who couldn't repay them by people who did not expect to be repaid because they were selling that right. They were securitizing them.

And other sophisticated financial institutions then took these badly made loans and rocketed them around the world through sophisticated financial investments. And there is a great agreement that that is the root cause of the problem.

But what caused the cause is disputed.

Now, there is a conservative view that says, "You know what happened? It was the liberals, the Democrats. There they went again trying to help poor people, and they forced these poor institutions, these vulnerable lenders, into making bad loans."

Now, we have seen a proliferation, a coordinated proliferation of that argument. It was trying to help poor people that did it. Some of the poor people were black and Hispanic, others – a majority of them, this being the United States with our ethnic composition – were white. But that's what's getting blamed, and it's in a coordinated way.

The talk show hosts, Vice President Cheney said that in his last interview, Mr. Rove has been arguing that. It is fairly coordinated.

Now, I do not argue that we are facing a vast right-wing conspiracy. What we are dealing with is something, however, equally troubling. It is crass right-wing mendacity. It is systematic dishonesty, lying, distortions, misrepresentations, bad history being promulgated.

Now, I speak as one of the Democrats who's learned our lesson. For too long we acted as if inherent implausibility was self-refuting. A man I admire greatly, John Kerry, a war hero, was victimized in 2004 because for too long he delayed fighting back the inherently implausible charge that he had not distinguished himself in battle. The Swift-boating of John Kerry was a terrible moment in American history, and his decency, his belief in fairness, held him back for a bit. He fought back, but it was later than it should have been.

We've had earlier examples of that. We're seeing it now. We are seeing a concerted right-wing effort to misrepresent the facts to avoid a result they don't want. The result is regulation. The result is that this country will do what it has done at least twice before.

We have a situation in which significant financial innovation in this country, beginning about 20 years ago or so, transformed mortgage lending. Mortgage lending used to be a matter of you going into your community bank – and by the way, among the victims of this whole operation have been the community banks. The community banks who have been no part of the problem but get the criticisms in an undifferentiated way and some of the burden. And we on the Financial Services Committee are determined to do everything we can to shelter them from that kind of unfair denunciation and excessive regulatory burden.

But what we had was a proliferation of lending now outside of the banks. Non-banks were able to lend because of liquidity in the world. You didn't have to go to depositors. If you get money from depositors, you're regulated. If you get money from pools of liquidity from Asia, from oil people in the Middle East, from elsewhere, from hedge funds, you do not have to face that regulation.

The other thing, of course, that happened was securitization. Thirty years ago people who got a mortgage were getting it from someone who expected it to be repaid by the borrower, and they were careful about the borrower. Increasingly, loans were made by people who did not expect to be repaid by that borrower, but who were going to package the loans and sell them to other people. And the discipline of a direct lender-borrower relationship eroded.

Then the sophisticated collateralized debt obligation derivatives and credit default swaps came in and took loans that should never have been made in the first place and sent them around.

The problem is that there were no regulations, insufficient regulation in the lending process, virtually no regulation in the process by which the bad loans were packaged and sent around the world.

So our job today is to do what Theodore Roosevelt and Woodrow Wilson and Franklin Roosevelt did – address innovations in the private sector. And we are a private sector country fortunately, and it is the private sector that creates wealth. But in periods of great innovation by definition there are no rules, no regulations. So you get a great deal of productive activity and you get some abuses. And the job of a sensible public policy is to try to restrain the abuses while getting the benefit of the innovation.

Theodore Roosevelt and Woodrow Wilson did that. They did antitrust laws; they did the Federal Trade Commission. And the contemporary version of today's right-wing ideology said, "Oh, my God. You're going to ruin everything." They were bitterly opposed to Theodore Roosevelt and his trust-busting.

And then when the stock market became important as a consequence of the large industrial enterprises becoming the basis of the economy to a great extent, Franklin Roosevelt did the same thing with the stock market. And if you want to read complaints similar to today's laments that regulation will ruin the economy and throttle competitiveness, go to the Congressional Record of the 1930s and read what they had to say about the Securities and Exchange Commission and other legislation FDR adopted. That's our job today. That's what we want to do. We want to put rules in place that allow us to get the benefit of innovations, the benefit of securitization, but without the abuses.

The economic fundamentalists feel threatened by this. The consequences of their deregulatory policy – which had been successful in America for far too long – are devastating, and they understand that the American people are unhappy with that and plan to impose regulation. And they are as opposed today as they were against Theodore Roosevelt and Woodrow Wilson and against Franklin Roosevelt who said, "The economic royalists hate me, and I welcome their hate because they know I am a threat to them."

We are a threat to the abusers. And by the way, Mr. Speaker, good rules are pro-market. Franklin Roosevelt made it possible for people to invest with confidence when he created the SEC. He created a situation in which you could have mutual funds with the Investment Company Act. We suffer today from people who will not invest because of their fears of abuse, and creating a set of rules that give comfort to investors will get this economy functioning again, get the credit markets functioning again.

All right, what do the conservatives say? Well, first of all, you made us lend money to poor people – it was the Community Reinvestment Act. I will insert in the Record the article from October 12 from the McClatchy newspapers, Messrs. Goldstein and Hall about that myth. And we will do a Special Order later on it.

McClatchy Newspapers, Oct. 12, 2008  
Private Sector Loans, Not Fannie or Freddie, Triggered Crisis  
By David Goldstein and Kevin G. Hall

Washington -- As the economy worsens and Election Day approaches, a conservative campaign that blames the global financial crisis on a government push to make housing more affordable to lower-class Americans has taken off on talk radio and e-mail.

Commentators say that's what triggered the stock market meltdown and the freeze on credit. They've specifically targeted the mortgage finance giants Fannie Mae and Freddie Mac, which the federal government seized on Sept. 6, contending that lending to poor and minority Americans caused Fannie's and Freddie's financial problems.

Federal housing data reveal that the charges aren't true, and that the private sector, not the government or government-backed companies, was behind the soaring subprime lending at the core of the crisis.

Subprime lending offered high-cost loans to the weakest borrowers during the housing boom that lasted from 2001 to 2007. Subprime lending was at its height from 2004 to 2006.

Federal Reserve Board data show that: More than 84 percent of the subprime mortgages in 2006 were issued by private lending institutions; private firms made nearly 83 percent of the subprime loans to low- and moderate-income borrowers that year; Only one of the top 25 subprime lenders in 2006 was directly subject to the housing law that's being lambasted by conservative critics.

The "turmoil in financial markets clearly was triggered by a dramatic weakening of underwriting standards for U.S. subprime mortgages, beginning in late 2004 and extending into 2007," the President's Working Group on Financial Markets reported Friday.

Conservative critics claim that the Clinton administration pushed Fannie Mae and Freddie Mac to make home ownership more available to riskier borrowers with little concern for their ability to pay the mortgages.

"I don't remember a clarion call that said Fannie and Freddie are a disaster. Lending to minorities and risky folks is a disaster," said Neil Cavuto of Fox News.

Fannie, the Federal National Mortgage Association, and Freddie, the Federal Home Loan Mortgage Corp., don't lend money, to minorities or

anyone else, however. They purchase loans from the private lenders who actually underwrite the loans.

It's a process called securitization, and by passing on the loans, banks have more capital on hand so they can lend even more.

This much is true. In an effort to promote affordable home ownership for minorities and rural whites, the Department of Housing and Urban Development set targets for Fannie and Freddie in 1992 to purchase low-income loans for sale into the secondary market that eventually reached this number: 52 percent of loans given to low-to moderate-income families.

To be sure, encouraging lower-income Americans to become homeowners gave unsophisticated borrowers and unscrupulous lenders and mortgage brokers more chances to turn dreams of homeownership into nightmares.

But these loans, and those to low- and moderate-income families represent a small portion of overall lending. And at the height of the housing boom in 2005 and 2006, Republicans and their party's standard bearer, President Bush, didn't criticize any sort of lending, frequently boasting that they were presiding over the highest-ever rates of U.S. homeownership.

Between 2004 and 2006, when subprime lending was exploding, Fannie and Freddie went from holding a high of 48 percent of the subprime loans that were sold into the secondary market to holding about 24 percent, according to data from Inside Mortgage Finance, a specialty publication. One reason is that Fannie and Freddie were subject to tougher standards than many of the unregulated players in the private sector who weakened lending standards, most of whom have gone bankrupt or are now in deep trouble.

During those same explosive three years, private investment banks--not Fannie and Freddie--dominated the mortgage loans that were packaged and sold into the secondary mortgage market. In 2005 and 2006, the private sector securitized almost two thirds of all U.S. mortgages, supplanting Fannie and Freddie, according to a number of specialty publications that track this data.

In 1999, the year many critics charge that the Clinton administration pressured Fannie and Freddie, the private sector sold into the secondary market just 18 percent of all mortgages.

Fueled by low interest rates and cheap credit, home prices between 2001 and 2007 galloped beyond anything ever seen, and that fueled demand for mortgage-backed securities, the technical term for mortgages that are sold to a company, usually an investment bank, which then pools and sells them into the secondary mortgage market.

About 70 percent of all U.S. mortgages are in this secondary mortgage market, according to the Federal Reserve.

Conservative critics also blame the subprime lending mess on the Community Reinvestment Act, a 31-year-old law aimed at freeing credit for underserved neighborhoods.

Congress created the CRA in 1977 to reverse years of redlining and other restrictive banking practices that locked the poor, and especially minorities, out of homeownership and the tax breaks and wealth creation it affords. The CRA requires federally regulated and insured financial institutions to show that they're lending and investing in their communities.

Conservative columnist Charles Krauthammer wrote recently that while the goal of the CRA was admirable, ``it led to tremendous pressure on Fannie Mae and Freddie Mac--who in turn pressured banks and other lenders--to extend mortgages to people who were borrowing over their heads. That's called subprime lending. It lies at the root of our current calamity."

Fannie and Freddie, however, didn't pressure lenders to sell them more loans; they struggled to keep pace with their private sector competitors. In fact, their regulator, the Office of Federal Housing Enterprise Oversight, imposed new restrictions in 2006 that led to Fannie and Freddie losing even more market share in the booming subprime market.

What's more, only commercial banks and thrifts must follow CRA rules. The investment banks don't, nor did the now-bankrupt non-bank lenders such as New Century Financial Corp. and Ameriquest that underwrote most of the subprime loans.

These private non-bank lenders enjoyed a regulatory gap, allowing them to be regulated by 50 different state banking supervisors instead of the federal government. And mortgage brokers, who also weren't subject to federal regulation or the CRA, originated most of the subprime loans.

In a speech last March, Janet Yellen, the president of the Federal Reserve Bank of San Francisco, debunked the notion that the push for affordable housing created today's problems.

"Most of the loans made by depository institutions examined under the CRA have not been higher-priced loans," she said. "The CRA has increased the volume of responsible lending to low- and moderate-income households."

In a book on the subprime lending collapse published in June 2007, the late Federal Reserve Governor Ed Gramlich wrote that only one-third of all CRA loans had interest rates high enough to be considered subprime and that to the pleasant surprise of commercial banks there were low default rates. Banks that participated in CRA lending had found, he wrote, "that this new lending is good business."

Mr. FRANK of Massachusetts: Very simple. The Community Reinvestment Act covers banks, not mortgage finance companies, not all of these other entities, not Fannie

Mae, not Freddie Mac, not Goldman Sachs, not Merrill Lynch, not the hedge funds. If mortgage loans had only been made by institutions covered by the Community Reinvestment Act, there would be no crisis. These are the community banks that do not deserve to be falsely blamed. They're not all crazy about the Community Reinvestment Act. But it is not, by any means, the source of this problem.

Most of the bad loans that were made were made by institutions not covered by the Community Reinvestment Act. The article I just quoted says only 1 of the top 25 subprime lenders in 2006 was directly subject to the CRA.

Well, then, they say okay--by the way, to their credit, every regulator in the Bush administration at the Federal Reserve, at the FDIC, at the controller of the currency, repudiates the notion that the Community Reinvestment Act caused this. Literally, no competent bank regulator believes that for a minute because they know, as regulators, they would not have allowed this.

Well, then, the next argument is it was Fannie Mae and Freddie Mac. And I will say I am personally involved here because my conservative colleagues have done me the compliment of imputing to me powers I never thought I had.

Now, here is the legislative record of the Republican Congress during the 12 years that this – the Republicans controlled Congress for 12 years. Here are the legislative records of 12 years of Republican control. Legislation upon bad subprime lending: zero. This is a very easy, very energy-efficient chart. You can use the chart for both issues.

Legislation to regulate Fannie Mae and Freddie Mac passed while the Republicans were in power from 1995-2006: zero. Now, one of the arguments--okay, they can't deny the facts.

Mr. KING of Iowa. Will the gentleman yield?

Mr. FRANK of Massachusetts. Will someone tell the gentleman from Iowa I will begin yielding after a certain amount of time has gone through. I want to get the complete argument out. I will yield some time and I will say more than that.

I look forward to when we return to debate--these things get too one-sided. Let's each take out an hour and we will share the hours and go back and forth in debates.

But that's irrefutable – zero. Republicans in control of Congress, no legislation adopted to ban subprime lending or to regulate Fannie Mae and Freddie Mac. Now why is that the case? Well, one argument is that I wouldn't let them do that. Newt Gingrich and Tom DeLay apparently had a secret passion to regulate Fannie Mae and Freddie Mac, but my secret hold kept them from doing it.

Mr. Speaker, I wish I knew that. If I knew I could have stopped them from doing things, I wouldn't have let them impeach Bill Clinton.

Mr. KING of Iowa. Will the gentleman yield?

Mr. FRANK of Massachusetts. No, I just told the gentleman that I would not yield.

Mr. KING of Iowa. I heard the gentleman. But if the shoe were on the other foot...

Mr. FRANK of Massachusetts. Mr. Speaker, will you please instruct the gentleman from Iowa, who I thought would have known better, that he has to be yielded to?

Mr. KING of Iowa. It's misstated facts.

Mr. FRANK of Massachusetts. Mr. Speaker, regular order.

The SPEAKER pro tempore. The gentleman from Massachusetts controls the time.

Mr. FRANK of Massachusetts. Please instruct the gentleman from Iowa if he asks me to yield and I say "no," he's not allowed further to speak. Those are the basic rules of the House.

I said to the gentleman after a certain amount of time, I will yield. I am sorry he is upset by the fact that the Republican Party, of which he is a member, had a zero record of accomplishment during those 12 years in which they controlled it. I will allow debate and yielding later. People have spoken for hours on this without any interruption. I am going to speak for at least 40 minutes without interruption and I will then yield.

So I will instruct the gentleman the rules of the House do not allow him to interrupt without permission. I do not interrupt people without permission, neither may he.

Mr. KING of Iowa. I hope the people will stick around, and I will yield to the gentleman when I have the time.

Mr. FRANK of Massachusetts. Mr. Speaker, will you please instruct the gentleman of the rules of the House.

The SPEAKER pro tempore. The gentleman from Massachusetts controls the time and does not wish to yield at this time.

Mr. FRANK of Massachusetts. As I said before the gentleman from Iowa tried to divert attention from it, zero legislation adopted by the Republicans.

The argument again is, well, Newt Gingrich and Tom DeLay wanted to do it. They overcame my objection to have a war in Iraq – that I thought was a terrible mistake – to cut taxes to very wealthy people, to intervene in the Terry Schiavo case, to do other things that I thought were unwise.

But I kept them from regulating Fannie Mae and Freddie Mac. Well, I wish I did have that power. I was a minority member of the Committee on Financial Services who had jurisdiction. It was then called the Committee on Banking. For part of that time, I wasn't the senior member. In 2003, I did become the senior member, the minority leader.

In the Republican House, the minority leader did not have a great deal of power. The Republicans had the power.

And so here's what happened. It is true that in 2003, the chairman of the committee, Mr. Oxley, decided to try to regulate Fannie Mae and Freddie Mac. He scheduled a vote on the bill, the Republican chairman on the committee, Mr. Oxley. Let me read from a CBS report October 7, 2003.



"Strong opposition by the Bush administration forced a top Republican Congressman to delay a vote on the bill that would create a new regulation for Fannie Mae and Freddie Mac."

Let me quote from the Washington Post on October 8. "The Bush administration is at odds with the Republican-controlled House Financial Services Committee over legislation to impose tougher oversight over Fannie Mae and Freddie Mac. The dispute dims prospects for quick passage of the bill."

So, Mr. Speaker, apparently I not only had the power to stop the Republican Party; I had a secret power over the minds of men, as the old radio serial used to say, and I managed to get Bush and the Republicans in the Congress to fight with each other. Boy, I wish I'd have known that at the time. There was a lot of damage I could have averted.

So the bill did not pass that year because the Bush administration stopped it because Assistant Secretary of the Treasury Abernathy denounced the Republican bill.

Now, it is true in 2003 I did say at a hearing that I did not think Fannie Mae and Freddie Mac faced a crisis. I did not think they did at the time. I didn't think Wachovia did at the time. I didn't think Merrill Lynch faced one at the time, or AIG or a number of other financial institutions that have failed even more spectacularly than Fannie Mae and Freddie Mac. That didn't mean I wasn't for some regulation. I didn't think they faced a crisis.

But I changed my mind a year later because, in 2004, as is made clear in an excellent book by Mark Zandi – Mr. Zandi is one of our best economists. He's level-headed. He's advised President Obama. He's advised John McCain. He wrote a book called *Financial Shock: A Look at the Sub-Prime Mortgage Implosion*.'

And here's what he said happened. He said Clinton started on homeownership for low-income people. "President Bush readily took up the baton at the start of his administration. Owning a home became one pillar of his ownership society. To reinforce this effort, the Bush administration" -- once again, my secret power at work -- "put substantial pressure on Fannie Mae and Freddie Mac to increase their funding of mortgage loans to lower income groups."

So, yes, I didn't think they were in crisis in 2003. In 2004, the Bush administration, according to Mr. Zandi's book, put pressure on them to increase this.

"OFHEO" – the Bush-controlled regulator – "set aggressive goals for the two giant institutions. By the time of the subprime financial shock, both had become sizeable buyers of these securities."

Now, I didn't think that was a good idea. Let me quote from the Bloomberg News Service, Mr. James Tyson, who used to cover financial news. This is from 2004, June 17. As Mr. Zandi noted, it was the Bush administration that pushed Fannie and Freddie, a year after I said they weren't in crisis.

"'Fannie Mae and Freddie Mac would suffer financially under a Bush administration requirement that they channel more mortgage financing to people with low incomes,' said the senior Democrat on the congressional panel that sets regulations." That

was me. I was by then the senior Democrat, still in the minority. "The rule compelled the companies to put 57 percent of their financing towards homes for people with incomes no greater than the median income. The White House 'could do some harm if you don't refine the goals,' said Representative Barney Frank. Frank's comments echo concerns that the new goals will undermine profits and put new homeowners into dwellings they can't afford."

Yes, I thought this was a bad idea. I didn't think giving people loans that they couldn't pay back was a good idea. It wasn't we, Democrats and liberals, who were pushing loans to low-income people. It was, as Mr. Zandi said, as Bloomberg said, the Bush administration because they wanted homeownership. By the way, that was part of an overall policy in which they cut funding for affordable rental housing.

And throughout, my difference with them has been that I wanted affordable rental housing. Yes, in that 2003 quote I said I was worried that Fannie Mae and Freddie Mac would cut back on affordable housing, and in our language that we use in the housing area, affordable housing is rental housing. I tried to get Fannie Mae and Freddie Mac not to buy bad subprime mortgages but, if they had profits, to put some of them into affordable rental housing.

So, yes, in 2004, I got worried that they were, as Mr. Zandi said, as the Bloomberg News said, putting people into low-income housing.

Around that time, I had a discussion with Alphonso Jackson, the Bush Secretary of HUD. He said he wanted to cut people off the rental housing assistance program after 5 years, the section 8 program whereby you help people rent housing. He said, "What do you think?" I said, "Well, if you can stop them from being poor after 5 years that would be perfectly sensible." He said, "No, no, be serious. Why aren't you for it?" I said, "Mr. Secretary, what will happen to some of these people who can't afford to rent if you cut off their rent supplement after 5 years?" He said, "I will help them become homeowners."

This was the Bush social policy. This was their compassionate conservatism. They were the ones pushing this, not CRA because it wasn't the banks doing it. Fannie Mae and Freddie Mac were doing it at the orders of the Bush administration.

So, in 2005, I did agree now, given this, that it was time to regulate Fannie Mae and Freddie Mac, and I joined Mr. Oxley, the chairman of the committee who tried to do it in 2003 and was stopped by the Bush administration and in 2005, Mr. Oxley began again a bill to regulate Fannie Mae and Freddie Mac.

It passed the Committee on Financial Services, of which I was the senior Democrat still, by 65-5. That was the bill Mr. Oxley put out. Five Republicans voted against it. They were on the Bush side; it didn't go far enough. But 28 Republicans voted for it, with all the Democrats. So 65-5, the bill passed the House in 2005 to regulate Fannie Mae and Freddie Mac.

It's been argued that, oh, yeah, but the bill was too weak because at the markup session, the committee vote, Democrats blocked good amendments. Let me be very clear. I've checked the record – I have the record here. I'm going to put it into the Congressional Record. No amendment at that session on the committee vote which received a majority of Republican votes was defeated. Some Republicans were defeated, but they had a minority of Republican votes. A majority of Republicans

carried the day on every vote. There were two efforts to try and tighten it. They were both defeated against the chairman's wishes, with a majority of Republicans against them on both sides.

I'll yield later on. I will put that in there. I will yield to the gentleman to clarify that.

Mr. GARRETT of New Jersey. I would like to ask you about that. I'm listening to what you are saying, if I could.

Mr. FRANK of Massachusetts. The gentleman may – I will yield briefly.

Mr. GARRETT of New Jersey. Thanks. I'm thinking back. If you're referencing the time when – actually, I think I had one of those amendments, if I'm not mistaken. I know one of the amendments I made and I withdrew, and then I made some other amendments, and I think Ed Royce and I'm trying to think. There was a whole series of amendments.

Mr. FRANK of Massachusetts. Well. I have the amendments. I'll read them. I'm sorry – the gentleman has raised a question. I'm not going to waste time. I'm sorry, look, we all have problems with our memory, but I'm not going to give up my scarce time while the gentleman wanders through memory lane. I am sorry, I take back my time. I'll read the amendment. I'll look for the amendment offered by Mr. Garrett.

An amendment to the amendment in the nature of a substitute offered by Mr. Garrett, number 1R, was withdrawn. We go down. An amendment was offered by Mr. Paul. It was defeated 14-56. There were 37 Republicans on the committee. An amendment was offered by Mr. Royce. It was defeated, 17-53, 20 beat 17. Then we have the only one I see by Mr. Garrett, who's asked me to yield, it was withdrawn. So Mr. Garrett offered one amendment at that markup, and it was withdrawn.

I will put the record in there. I don't have further time to yield. If the gentleman wants to see if the record was incorrect, and at one point I quoted something about the gentleman that was incorrect and I apologize, but this one I have double-checked. So Mr. Garrett offered one amendment, and it was withdrawn.

Amendments to strengthen the bill, to put some spine in Mr. Oxley, who the Republican administration thought too weak, the author of Sarbanes-Oxley, the coauthor, two Republican amendments taken a roll call, both defeated with a majority of Republicans defeating them.

And then we went to floor of the House on this bill. And I voted for this bill.

We went to the floor of the House and it came to the Rules Committee, and the Republicans then in the Rules Committee did something outrageous procedurally. We had in there a provision that said some of the money from Fannie Mae and Freddie Mac profits would go, if they had the profits, to rental housing, not subprime mortgages, to rental housing, and it would go through organizations. Conservative Republicans said, oh, no, some of these organizations are nefarious, you can't be giving money to some of these organizations; you better give only to housing groups; if you give it to a multipurpose organization, bad things will happen.

So they put an amendment in that had not been offered in committee and did not allow a vote on it on the floor. It was a self-executing rule as they call it. A self-

executing rule is what you call it when you jam it in and don't let people vote on it. This was the Republicans in the Rules Committee. Mr. Oxley was not in favor of it, but he had to be a good soldier.

It said no organization could get any money to build this rental housing if housing wasn't their prime goal, and we heard from some of those radical organizations who were upset. I remember particularly the Catholic Church, which does a very good job of building affordable housing. I work very closely with the Catholic Church and they do excellent work in the Archdiocese of Boston, the Diocese of Fall River, Arlene McNamee and Lisa Alberghini, two wonderful women working under our cardinal and our bishop in this regard.

And the Catholic Church said, you know, it says we can't get any money unless housing is our main purpose. Now, we care a lot about housing, but God has to be our main purpose. So the Catholic Church apologized for the fact that they could not claim for the purpose of getting money that their main purpose was to build housing. They would have been excluded. I was angry about that, and so when the bill passed the House I voted against it. I still wanted the bill to be passed without that.

But the point is this. In 2003, Republicans in power, no bill is offered. So it's apparently my fault that the Republicans, since they were fighting each other, wouldn't offer the bill.

In 2005, it is offered, and unlike the gentleman from New Jersey, I joined the chairman of the committee and a great majority of the Republicans, 32 of the 37 Republicans, to bring the bill to the floor. I didn't vote for it on the floor because I didn't like the housing piece, but it got 300 votes on the floor of the House, and it was about to go to the Senate.

At that point, according to Mr. Oxley, once again the Bush administration intervened to kill it. And Mr. Oxley said – I hope it's late enough in some parts of the country for me to quote Mr. Oxley – in his interview in the Financial Times, he said the ideologues at the White House blocked this regulatory bill that would have improved regulation that was voted on by 300 Members of the House, by a 10:1 ratio in the committee, by an overwhelming majority of Republicans in both bodies. He said the administration ideologues gave him the one-finger salute, which I will not illustrate on the floor of the House given propriety.

*The Financial Times*, Sept. 9, 2008  
Oxley Hits Back at Ideologues  
By Greg Farrell in New York

In the aftermath of the US Treasury's decision to seize control of Fannie Mae and Freddie Mac, critics have hit at lax oversight of the mortgage companies.

The dominant theme has been that Congress let the two government-sponsored enterprises morph into a creature that eventually threatened the US financial system. Mike Oxley will have none of it.

Instead, the Ohio Republican who headed the House financial services committee until his retirement after mid-term elections last year, blames

the mess on ideologues within the White House as well as Alan Greenspan, former chairman of the Federal Reserve.

The critics have forgotten that the House passed a GSE reform bill in 2005 that could well have prevented the current crisis, says Mr. Oxley, now vice-chairman of Nasdaq.

He fumes about the criticism of his House colleagues. "All the handwringing and bedwetting is going on without remembering how the House stepped up on this," he says. "What did we get from the White House? We got a one-finger salute."

The House bill, the 2005 Federal Housing Finance Reform Act, would have created a stronger regulator with new powers to increase capital at Fannie and Freddie, to limit their portfolios and to deal with the possibility of receivership.

Mr. Oxley reached out to Barney Frank, then the ranking Democrat on the committee and now its chairman, to secure support on the other side of the aisle. But after winning bipartisan support in the House, where the bill passed by 331 to 90 votes, the legislation lacked a champion in the Senate and faced hostility from the Bush administration.

Adamant that the only solution to the problems posed by Fannie and Freddie was their privatisation, the White House attacked the bill. Mr. Greenspan also weighed in, saying that the House legislation was worse than no bill at all.

"We missed a golden opportunity that would have avoided a lot of the problems we're facing now, if we hadn't had such a firm ideological position at the White House and the Treasury and the Fed," Mr. Oxley says.

When Hank Paulson joined the administration as Treasury secretary in 2006 he sent emissaries to Capitol Hill to explore the possibility of reaching a compromise, but to no avail.

Mr. FRANK of Massachusetts. So, once again, it was blocked by them. I was supportive of Oxley in committee. I wanted a bill to be cleared of the housing thing. It got 300 votes on the floor. So, did I stop it?

What happened was, it went to the Senate, and then the Republican free-for-all multiplied. It went to the Senate, and the Republican Senate voted the bill out by one vote, but it never went to the floor, and you had a three-way dispute: the Senate Republican chairman, Mr. Shelby; the House Republican chairman, Mr. Oxley; the President of the United States. The Secretary of the Treasury actually sided with Mr. Oxley, he said.

That's why we got no Fannie Mae bill. That's the history. By now the clock runs out on them. We passed the bill in 2005 in the House. I voted "no," but I was prepared to vote for it with an amendment that did not affect the regulatory structure. Goes to the Senate and dies. The Republicans killed it.

I certainly don't think I had the power to stop anything from happening in a Republican House, but the notion that I have a secret power over the Republican Senate is bizarre even by the standards of the myth-makers who have gotten into this effort.

2007 comes, and I'm told, oh, I'm responsible. In fact, the gentleman from Missouri, Mr. Akin, and I checked the record by the way, and Mr. Akin, there is zero record of Mr. Akin showing any interest in Fannie Mae or Freddie Mac, filing a bill, making a statement, until the Democrats took power. So my Republican friends, it's kind of like the guy in the bar, the guy who's all ready for the fight as long as the other guy isn't there. When the other guy was there, they were very meek and mild.

Mr. Akin said, Well, I was chairman of the committee when the collapse came; do I take any responsibility? No, not for that, because I tried to work with Mr. Oxley in 2005 to pass a bill over what he called the Bush ideologues who blocked him. And in 2007, I became chairman of the committee on January 31.

On March 28, the committee passed a bill that improved the regulation of Fannie Mae and Freddie Mac in a way that was tougher than the Oxley bill of 2007. In fact, the Bush administration that thought that the Oxley bill was too weak approved our bill. They said it was the right way to do it. It was the right form of regulation.

In fact, Richard Baker, who unlike many of the Republicans who now are full of fight, was a leader in an effort to restrain Fannie Mae and Freddie Mac, was quoted at the time as saying – Mr. Baker had been the leader in this and here's what he had to say, talking about the bill. Here's a quote from Politico: "Barney Frank had witnessed Baker's battles as ranking member of the House Financial Services Committee. When he became chairman this year, he moved swiftly and pushed the bill through the Chamber in May with a 313-104 vote. The Frank legislation is significantly tougher than the one Fannie and Freddie fought so bitterly in 2000, an irony that pleases Baker." And the gentleman, our former colleague says, "With every iteration it" -- the bill I sponsored – "it got stronger. It's to the point where I didn't know what else there was to put in it."

And then there's a group called FM Focus. They were formed to be a critical block that sought regulation of Fannie Mae and Freddie Mac. Here's what they said in the Congressional Quarterly. The chief lobbyist was asked, were any other Democrats helpful? Here it is.

Here's what the chief lobbyist for the Fannie Mae and Freddie Mac group said: "The Senate Banking Committee passed a very good bill in 2004." It never got to the Senate floor. That was under the Republicans. There I go again stopping the Senate Republicans from bringing their own bill to the floor.

The Senate Republicans had a bill. Never came to the floor of the Senate when I was in the Democratic minority in the House. Then the House introduced a bill, which it passed, but we couldn't get the bill to the floor of the Senate.

"Then, after the 2006 election, when everyone thought FM policy focus issues would be tough sledding with Democrats in the majority, Barney Frank as the new chairman of the House Financial Services Committee stepped up and said, 'I am

convinced we need to do something.' He sat down with Treasury Secretary Hank Paulson and, frankly, upset people in the Senate and Republicans in the House." Because they wanted an issue to complain about. They didn't want to see a solution.

"They came up with a bill that was excellent – and it was the bill that largely becomes law," and they were able to be phased out.

So let me just summarize on Fannie Mae and Freddie Mac. The Republicans do nothing to pass a bill in their 12 years in power. 2003, Mike Oxley tries to pass one. The Bush administration makes him call it off by pressuring him.

2005, he gets one passed in the House. The Bush administration denounces it, he denounces them, and the Senate doesn't pass it. 2007, when I became chairman, we passed it. So I don't think I apologize for this.

Unfortunately, Senate deadlock again occurred this time with the Democrats in a 2-vote majority, but it has a happier ending because the Democrats in the Senate ultimately did pass the bill.

In January of 2008, worried that the Bush policy of pushing them into too many subprime loans, which I've documented, starting in 2004, I appealed to Secretary Paulson, who will acknowledge this, when we did the economic stimulus bill, and said, please, would you put the Fannie Mae and Freddie Mac regulatory bill, which you like, into the stimulus.

It also had an affordable housing trust fund, so the right wing didn't like it. They didn't like the idea of helping build affordable rental housing. But building affordable rental housing avoided the problem of bad subprime mortgages. That was the solution I'd always worked for. And Mr. Paulson basically said to me, I'd like to do it, but I've got conservatives here who won't let me.

So we could have had that in the stimulus in 2008. It didn't finally pass until July of 2008. By that time, it was too late to avoid a lot of the disaster with Fannie Mae and Freddie Mac. But if I had been successful, we would have passed it in 2005, myself, working as a junior member of a coalition with Mike Oxley. We would have passed it in 2007 if the Senate had been able to do it. So that's the story of Fannie Mae and Freddie Mac.

So it is the Republicans' fault because they ran the House and the Senate and the Presidency that we didn't get passage of a Fannie Mae-Freddie Mac bill until the Democrats came back to power. It's just indisputable. Republican President, Republican House, Republican Senate. No bill.

Democrats take over. We get a bill through the House in one year. Unfortunately, a year later we have to wait before we get it through the Senate.

But when my Republican friends think about it, I don't want them to feel too bad – on this issue – because while they were clearly the ones who were responsible for no regulation of Fannie Mae and Freddie Mac, I don't think it had as much negative impact as they think. I think the Fannie Mae and Freddie Mac collapse was as much an effect as a cause of the subprime crisis. Fannie Mae and Freddie Mac did not originate mortgages. That's not their goal. They bought mortgages made by other people. If people hadn't made those bad mortgages in the first place, there wouldn't

have been any. They were something of an encouragement. So were a lot of others in the private sector.

And that's where the real blame lies. Blame lies with Republican policies that resisted our efforts to restrict inappropriate subprime loans. This is the crux of it. Bad subprime loans were the root of this--and there could not be a clearer partisan divide on the issue. Again, I would urge people to read Mark Zandi's book.

In 1994, the last time the Democrats had a majority before 2007, my predecessor, as a senior Democrat, John LaFalce, an excellent consumer fighter from the State of New York, helped pass a bill called HOEPA, Home Ownership Equity Protection Act. And it said to the Federal Reserve: regulate subprime loans. Remember, the problem I mentioned before is that we got a new form of lending that went outside the banks and went to the mortgage finance companies and they weren't regulated.

So the Democratic Congress said: Mr. Greenspan, regulate them. Mr. Greenspan said explicitly: No. In fact, Mr. Zandi, again a man who's been an advisor to John McCain, headlines on page 152 of his book on the Financial Shock, a subchapter headlined: Greenspan's Regulatory Failure.

Mr. Greenspan acknowledged as much before the Government Reform Committee this year. By the way, another one of those who has said that we were secretly behind this, who was a member of the Republican Party and did nothing in the House to stop this was the gentleman from California, Mr. Issa. He was a member of the Government Reform Committee for many of these years. They did nothing about Fannie Mae and Freddie Mac until Mr. Waxman took over and got into it during the first Congress among Democrats.

But Mr. Greenspan refused to do that in 1994. Many pressed him to do it – he refused. In 2004, when the Bush administration began pushing harder for subprime loans, many of us became concerned.

Here's what Mr. Zandi says again. "A group in North Carolina was particularly concerned about that," – the Committee for Responsible Lending – "working with two of their very effective and thoughtful members" – members of our Financial Services Committee, Mr. Watt and Mr. Miller – "they sought to get legislation enacted that would prevent this sort of abuse."

We began conversations. I was then the senior Democrat still on the committee. The Republican chair of the committee that had jurisdiction on Housing was the gentleman from Alabama, Mr. Bachus, now the ranking member, the minority member.

And I will do Mr. Bachus a favor--I will not impute to him the secret powers imputed to me. I don't blame Mr. Bachus for what we do or don't do. We're the majority and we will take the responsibility. It's the Republicans who won't take the responsibility for their zero batting average for 12 years when we were in the minority.

But we sought, as Mr. Zandi documents, to pass legislation to restrict subprime lending. Alan Greenspan wouldn't use his authority that the Congress had given him, so we tried to do it. And the problem is that the Republican philosophy that ruled of no regulation knocked it out of the box.



I think Mr. Bachus, the gentleman from Alabama, was serious. Mr. DeLay was even more serious. He didn't want it. We were in negotiations. Now the gentleman from Alabama was chair of the subcommittee. He could have, any time, called a mark-up, he could have brought a bill out. We thought his bill would have been strong enough. He could have outvoted us.

Republicans often did that when they were in the majority, as we often do today.

But here is what Mr. Zandi said: "Democrats in Congress were worried about increasing evidence of predatory lending. The Bush administration and most Democrats wanted a Federal equivalent to the North Carolina law to cover all lenders, not just the banks. The Bush administration and most Republicans in Congress," – who were in the majority – "were opposed, believing legislation would overly restrict lending and thus slow the march of home ownership."

"The last attempt to pass anti-predatory lending legislation occurred in 2005, but it was also stymied by the Republican leadership."

So here's where the Republicans' failure is. They pushed for greater home ownership among low-income people –not CRA, the Republicans, because this was their philosophy. This was their social program as opposed to rental housing, much more appropriate for many of the low-income people. And then they blocked our efforts to regulate it.

Once again, we had to wait until 2007. In 2007, when the Democrats became the majority, we did pass legislation to block inappropriate subprime lending, predatory lending. We got the bill through the House. This time, we weren't able to get it through the Senate, but we did have some success because the Federal Reserve under Mr. Bernanke has been a much more responsive institution to these kinds of problems than Mr. Greenspan. I thought Mr. Greenspan did a good job in macroeconomic policy. But he was lousy because of his ideological opposition to any kind of regulation.

Mr. Bernanke used the authority in 2007 – after we moved on our legislation – he used the authority Mr. Greenspan wouldn't use and promulgated rules to ban subprime lending. I don't think they go quite far enough, and they should be statutory.

So we will get a test, Mr. Speaker, because when we return from the break, the Committee on Financial Services will bring out a tough bill to put rules on all subprime lending. Essentially, we're going to use our community banks as a model-- these well-run institutions. We're going to take the rules community bankers have long used and apply them to all loans to prevent the bad subprime loans.

The last time we did that, two-thirds of the Republicans voted against it. In fact, we were opposed by the *Wall Street Journal*.

Now, I do think the *Wall Street Journal's* role here deserves some coverage. The *Wall Street Journal* has been one of those in this dishonest, anti-historical efforts to blame the Democrats. In particular, they had an editorial recently which said I was pushing for people to get subprime loans. Exactly the opposite is the case. And I wrote a letter, by the way, documenting that, and it could not be printed.

I have to say this. I respect the press, but the people who write the *Wall Street Journal* editorials on this, Mr. Paul Gigot and Mr. Stephen Moore, are cowards and liars. They print stuff that they know is wrong and will not give me the access to rebut. Fortunately, I have this access, and I'm going to put into the Record the letter I sent refuting it.

Letter to the Editor of the *Wall Street Journal*  
HOUSE OF REPRESENTATIVES,  
FINANCIAL SERVICES COMMITTEE,  
Washington, DC, December 5, 2008.

EDITOR: I am used to having my views severely distorted by the *Wall Street Journal* Editorial Board – in contrast to the accurate representation that its reporters present. But the opening of the editorial on December 3rd doesn't distort – it gets the truth absolutely backwards. In short, the Journal's assertion that I have “spent [my] career encouraging mortgage loans to people who can't repay them,” is not only entirely inaccurate; it blames me for policies that the Journal has itself defended.

I have consistently argued that the push for homeownership that existed in the Clinton administration, but was significantly upgraded in the Bush administration, made the mistake of assuming that virtually all people could be homeowners. In contrast, I argued that the majority of low-income people should be aided by policies that promoted affordable rental housing.

For example, on February 18, 2002, at a hearing on the budget I said “I am in favor of trying to help lower-income people get the advantages of homeownership... but almost by definition, the large majority of poor people are going to need rental housing.” On March 6, 2004, the *National Journal* reported that “When the FHA's plan to insure subprime loans was included in a Senate-passed appropriations bill, Frank... a staunch supporter of low-income housing, wrote a highly critical letter urging that the measure not be included.... Not only had the House committee not examined... the proposal he said then, but the measure also offered no protection against lenders inappropriately steering people towards these high-cost loans. Nor did it offer safeguards to ensure that participants “were fully suitable for homeownership.”

That same year, when the Bush administration insisted that Fannie Mae and Freddie Mac raise the percentage of below-median income homeowner mortgages they bought, I was correctly quoted in a Bloomberg article on June 17th as saying that this would “do some harm,” and the writer noted that “Frank's comments echo concerns... that the new goals will undermine profits and put new homeowners into dwellings they can't afford.”

It was a consistent series of statements like that on my part, and efforts to act on them – although these were often unsuccessful when I was in the minority – that led frequent Republican economic appointee and *Wall Street Journal* contributor Larry Lindsey to write in April of this year that “Barney Frank is the only politician I know who has argued that we

needed tighter rules that intentionally produce fewer homeowners and more renters. Politicians usually believe that homeownership rates should – must – go ever higher."

In fact, I was one of the supporters in 1994 of the legislation that directed the Federal Reserve to restrict inappropriate mortgages at the subprime level, and I also lamented Alan Greenspan's refusal to implement this – a refusal which he in a forthright manner acknowledged recently was a grave error. When he refused to do this, I and others in Congress, mostly but not only Democrats, pushed for legislation to restrict subprime mortgages.

As Mark Zandi notes in his recent excellent study of the financial crisis, when "the Bush administration put substantial pressure on Fannie Mae and Freddie Mac to increase their funding of mortgage loans to lower-income groups," I and other Democrats stepped up our efforts to pass legislation that banned the inappropriate loans that have led to the current crisis. In Zandi's words, "Democrats in Congress worried about increasing evidence of predatory lending... and the Democrats wanted a federal [law] that would cover all lenders nationwide. The Bush administration and most Republicans in Congress were opposed, believing legislation would overly restrict lending and thus slow the march of homeownership... the last attempt to pass any predatory lending legislation occurred in 2005 but it was also stymied."

In other words, I was consistently arguing against efforts to extend homeownership to people who could not afford it, and instead sought to increase rental housing. Indeed, as the Journal knows, one of their criticisms of my attitude towards Fannie and Freddie has been my ultimately successful effort to create an affordable housing trust fund that takes money from Fannie and Freddie and puts it into rental housing.

In fact, Zandi's comment that the last effort to pass any predatory lending legislation was 2005 is correct as it applies to those years from 1995 until 2006 when the Republicans controlled Congress. However, when the Democrats achieved a majority in 2007, and I became Chairman of the Financial Services Committee, the first major piece of legislation the committee approved was a bill adopting the regulatory upgrade for Fannie and Freddie that had been strongly advocated by the Bush administration, but which it had been unable to get the Republican Congress to pass. Next, we moved on to anti-predatory lending legislation and succeeded later in 2007 in passing a bill that, had it been law earlier--when we were in the minority and unable to enact it--would have prevented most of the bad loans.

But, while the predatory lending bill passed by a large majority in the House, there were staunchly conservative advocates of unlimited homeownership who were critical. One prominent conservative voice lamented in November 2007 that I planned "to hold a committee vote on the Mortgage Reform and Anti-predatory Lending Act that would impose new rules and financial penalties on subprime lenders while providing new lawsuit opportunities for distressed borrowers." In objecting to this legislation, this commentator defended the record of subprime lending,

although conceding that there had been some "lending excesses." Decrying the attacks on subprime lending, this statement said that "For all the demonizing, about eighty percent of even subprime loans are being repaid on time and another ten percent are only thirty days behind. Most of these new homeowners are low-income families, often minorities, who would otherwise not have qualified for a mortgage. In the name of consumer protection, Mr. Frank's legislation will ensure that far fewer of these loans are issued in the future."

Exactly. That was my intention then, and it was my intention years earlier when Republicans blocked it and carried out the spirit of these comments to allow fairly unregulated subprime lending. And of course the statement I have been quoting here is the *Wall Street Journal* Editorial of November 6, 2007.

Barney Frank  
Chairman, House Financial Services Committee

By the way, one response to their argument – this is my letter – that I was pushing for subprime loans – they said that I was the one who was always trying to push subprime loans. Here's a quote from Larry Lindsey. Mr. Lindsey was an advisor to Ronald Reagan and to both Presidents Bush. He was fired by the most recent President Bush because he predicted that the war in Iraq would cost \$100 billion, and he was told that was wrong. Well, it was wrong – it was way too low. That's not why they fired him.

Here's what Larry Lindsey wrote in the *Wall Street Journal*, of all places, on April 2, 2008, talking about regulation. "In fact, Representative Barney Frank is the only politician I know who has argued that we needed tighter rules that intentionally produce fewer homeowners and more renters. Politicians usually believe that homeownership rates should – must – go even higher. The rarity of Mr. Frank's contrarian thinking is a reminder that when markets are committing excesses, we should not expect Washington actors to check on them."

The *Wall Street Journal*, as I said, lies about this. And in fact, in 2007, when we passed a bill over the objection of most Republicans, although we had the support of the then ranking member of the Financial Services Committee, although I understand he got in a lot of trouble with his right wing over this and promised maybe never to do it again. We'll see when this comes up.

But here's what the *Wall Street Journal* editorial said when we passed a bill to stop abusive subprime lending: "For all the demonizing of subprime lending" – 2007, they said we were demonizing subprime lending, the *Wall Street Journal* editorial – "about 80 percent of even subprime loans are being repaid on time, and another 10 percent are only 30 days behind."

Isn't that wonderful? Only 10 percent are more than a month behind. Ten percent default and 30 days another 10 percent? Only the *Wall Street Journal* in this ideological fantasy world would think an 80 percent repayment rate of mortgages to low-income people is a good thing.

But here's what they said. "Most of these new homeowners and low-income families are often minorities" – so it's apparently the *Wall Street Journal* who's pushing to get minority loans which are going to get a default at a rate up to 20 percent – "who would not otherwise qualify for a mortgage. In the name of consumer protection, Mr. Frank's legislation will ensure that far fewer of these loans are issued in the future."

I hope so, exactly.

It was our goal, our intention, our mission to have far fewer of those loans. And if we had gotten the bill passed in 2007, we still would have had a crisis. It wouldn't have been as bad today. It was blocked by Republican opposition in the Senate.

So that's where we are. Republicans are in power. They do nothing to regulate Fannie Mae and Freddie Mac. They do not only nothing to regulate subprime loans, they push more subprime loans through the Bush administration and they block our efforts to legislate about them.

We now have an agenda to go forward, and I am going to outline that briefly. But I will at this point – I have about 17 minutes left – I will yield 4 of my 17 minutes to the gentleman from Iowa.

Mr. KING of Iowa. I thank the gentleman for reaching his conclusion and allowing a yield. I sat and listened to this. One thing I think the Chairman would agree to as just a minor correction to one of the posters that references Mr. Paulson as Frank Paulson rather than Henry Paulson. Small little correction. It wasn't the reason I asked to yield.

Mr. FRANK of Massachusetts. What poster mentions Frank Paulson?

Mr. KING of Iowa. That's what the poster said. Frank Paulson.

Mr. FRANK of Massachusetts. It should have said Hank Paulson. I thank the gentleman for that profound correction. I will see that the typist is severely chastised.

Mr. KING of Iowa. I know that the gentleman is very interested in making sure the Record is correct. Having been corrected myself by the Chairman, I would also offer that correction.

But my point was this, if the gentleman would yield to a question, and that is I'm listening to this this evening and I'm thinking of an evening that my recollection tells me was a debate on this floor on October 26, 2005, and it had to do with regulation of Fannie Mae and Freddie Mac. And it was an amendment offered by the former chairman of the Financial Services Committee, Mr. Leach of Iowa, that, in essence – and I can't quote it to the gentleman from memory – but, in essence, it would have regulated Fannie Mae and Freddie Mac in the same categories – very similar to the same categories of that of other lending institutions.

Mr. FRANK of Massachusetts. The gentleman is correct. Does the gentleman remember how many votes that got on the floor of the House in a Republican House?

Mr. KING of Iowa. I think there were around 35 to 38 votes.

Mr. FRANK of Massachusetts. Thirty-six. The gentleman has a very good memory, 36; 30 were Republicans, 6 were Democrats.

So it is true, the former chairman of the committee offered an amendment to tighten this up, and then the House, with about 230 Republicans, 30 voted with him and 200 Republicans voted against him. Was that my fault?

Mr. KING of Iowa. If the gentleman would further yield, a recollection from the Congressional Record would have been that the gentleman, who is now Chairman of the Financial Services Committee, had made the statement in that debate that he wasn't concerned about Fannie Mae and Freddie Mac's viability, and that it wasn't necessary to increase the regulation or the capitalization of Fannie Mae and Freddie Mac. And, that if anyone was investing in Fannie and Freddie's shares, they shouldn't be confident that the gentleman from Massachusetts would support a bailout of Fannie and Freddie.

Mr. FRANK of Massachusetts. No.

Mr. KING of Iowa. And today, we have the nationalization of Fannie and Freddie.

Mr. FRANK of Massachusetts. I will take back my time and say it is exactly the opposite. Throughout the debate, I said to people that they should not consider that there was a guarantee, that they should not consider there was an implicit guarantee. I consistently said that. They benefited from people's perception when in fact, the share holders – I'm sorry, I haven't yielded again. I have consistently said that.

When there was an intervention that Mr. Hank Paulson asked for, it did refer to the bondholders, as we often do. The shareholders were wiped out, including the preferred shareholders.

So, in fact, when I was chairman of the committee and we responded to Mr. Paulson, we wiped out the Fannie Mae and Freddie Mac shareholders, as I had always warned that they could be. I did think at the time we passed the bill, at Mr. Paulson's urging, or that we were about to, that it would be helpful. It turned out things were worse than I thought. But he did mention Mr. Leach, so let me give the voting record. And I was neglectful of this.

The bill came to the floor of the House – the bill the Bush administration thought was too weak. Now, the Republican Rules Committee allowed nine amendments. By the way, when the bill came to the floor when I was the chairman, we had 24 amendments, because I do believe, I think, in a more open process. We had the manager's amendment was one of them, a couple by voice vote. Mr. Leach sought to put in minimum capital levels. He lost 378-36. This is in the Republican House.

Again, the argument is who did it? This is part of your zero. I should have had a footnote. The one time you did try, Mr. Leach, who thought Mr. Oxley was being too weak; he got 30 Republicans with him and 200 Republicans against him. Now, Mr. Royce also had an amendment; Mr. Royce, another critic. He did better than Mr. Leach. He got 73 votes versus 346. So in both cases, the two amendments that were allowed – oh, I take it back. Mr. Paul had an amendment, too. And I guess this is a sign of the state of the Republican Party.

Mr. KING of Iowa. Would the gentleman yield?

Mr. FRANK of Massachusetts. I am sorry, the gentleman has raised a point and I am going to respond to it.

The point is this: Mr. Paul also – there were three amendments offered to toughen the bill in 2005. Mr. Paul got 47 votes. Well, that is the Republican Party; Mr. Paul gets more votes than Mr. Leach.

But here are three amendments offered to toughen it, all three defeated by an overwhelming majority of Republicans.

The point is – I supported Mr. Oxley. I thought we had a good bill.

I would also note that by 2007 – and, by the way, in 2005, I was hoping that we would regulate Fannie Mae and Freddie Mac but also restrict subprime loans. As it became clear to me that Republican opposition would prevent us from blocking subprime loans, I did become convinced of a need for tougher regulation. That is why Mr. Baker, your former colleague, said the bill we brought out in 2007 was as tough as it could be.

Now I will yield again.

Mr. KING of Iowa. And I appreciate the chairman yielding. But is it also true that you opposed those amendments that would have regulated Fannie Mae and Freddie Mac?

Mr. FRANK of Massachusetts. Yes. I will----

Mr. KING of Iowa. The policy underlying – regardless of how the Republican votes came out, did the gentleman oppose those regulatory amendments that came to the floor?

Mr. FRANK of Massachusetts. Yes. I am taking back my time to say yes.

My point is that it was not my fault that 200 Republicans voted against it. I did vote with the overwhelming majority of Republicans. The question is – who is responsible?

But I would also say this. You know, when you are in the minority you can't always shape things. Sometimes you have to make unpleasant choices. When I became the chairman of the committee on January 31, 2007, I was able then to combine tough regulation, knowing that we were going to be able to restrict subprime, and with help for rental housing.

So the fact is that when I was in power, not forced to choose among Republican alternatives but in the majority, I helped pass a bill that was tough enough, tougher than the bill in 2005, that was acceptable to the Bush administration, acceptable to the leading critical group, acceptable to Mr. Baker.

So, yes, I voted with the great majority of Republicans. So I guess that is what I am responsible for. I voted with the overwhelming majority of House Republicans to report out a bill that the Republicans thought would work.

I will yield to the gentleman from New Jersey.

Mr. KING of Iowa. I want to just thank the gentleman for yielding.

Mr. FRANK of Massachusetts. Well, I yielded to the gentleman from New Jersey.

Mr. KING of Iowa. I am happy to thank the gentleman, and compliment him on his diminishment of his own persuasive powers, and be happy to yield back.

Mr. FRANK of Massachusetts. Well, I agree – the gentleman says my persuasive powers. That is the joke of it all. That is, frankly, the gap between the propaganda and the reality.

The Republicans are in control; they pass a bill. In fact, they cut out the affordable housing part I wanted. I did at the time hope that we could combine moderate regulation of the sort Mr. Oxley wanted and the overwhelming majority of Republicans wanted with an affordable housing program and with restrictions on subprime. When we were not able to get the subprime bill through and things had deteriorated, I then said, okay, and I was for tougher regulation.

So, by the way, at that point the gentleman from Iowa I believe voted against it. I know the gentleman from New Jersey did. Do you know why? I will tell people, Mr. Speaker. Because I, in the chairmanship that I had, was able to get a bill that toughened the regulation of Fannie Mae and Freddie Mac.

But what about the Catholic Church getting money to build rental housing, and allowing non-housing groups like the Catholic Church, and others, to build rental housing? They opposed it.

So, yes, a majority of Republicans voted for the bill in 2005 that the Bush administration thought was too weak, and a majority of the Republicans opposed the bill in 2007 that the Bush administration said was strong enough, because their opposition to rental housing for low-income people overcame that. But that is the story.

Now I yield to the gentleman from New Jersey.

Mr. GARRETT of New Jersey. I appreciate the gentleman yielding. One, as an individual who was one of the few in those numbers who voted "no" on those amendments...

Mr. FRANK of Massachusetts. And "no" in committee.

Mr. GARRETT of New Jersey. Right. And voted "no" in committee. Obviously, I saw some of the problems and had concerns early on.

Secondly, I will make a suggestion to you as to why you get the accusations, if you will, or the statements about you, as you will. I didn't see the program. I heard you were on Lou Dobbs and other things like that the other night where those statements are often made. I will make the suggestion as to why that may be, if you will.

Mr. FRANK of Massachusetts. I yielded to the gentleman. He may do whatever he wishes.



Mr. GARRETT of New Jersey. When I came here in 2002, in that election and that year and joined the committee, I immediately became somewhat involved in this issue, although I had never been involved in it before.

I saw in our committee, between both parties, that one person stood out, in my mind, and a lot of other people's mind, as the person who was always trying to fight to rein in the GSEs. And that person, who is no longer with us, is Richard Baker. He was articulate, he was eloquent. He was always on the facts and what have you. He was always pounding, pounding, pounding at every opportunity. So I and other people saw him as being on that side.

And, quite candidly, when we had those debates, when some of those amendments as you referred to before – and I think there were other ones in the later months that I and others made from the conservative point of view; a number of us saw the champion on the other side of that issue out of both parties, out of both Republicans and Democrats; and I agree that there were some Republicans who were vociferous as far as letting Fannie and Freddie do----

Mr. FRANK of Massachusetts. I will take back my time to say a majority of the Republicans at every turn. Don't say--not some Republicans. A majority of Republicans in the committee, a majority of Republicans on the floor. Not some Republicans. But every time the issue arose, a majority of Republicans were on the side of Mr. Oxley and myself.

Mr. GARRETT of New Jersey. What I am saying is not how the votes were going. I was saying as to which Members actually stood up and were most vociferous on this issues. Not all the Republicans were vociferous on it; there were one or two or three that were vociferous, as Richard Baker was on this side.

And on those other issues, maybe because you were ranking member in the minority years, but otherwise you were very vociferous on opposing those bills.

Mr. FRANK of Massachusetts. I take back my time. Now I guess I am guilty. Yes, I was the senior Democrat, and I spoke out. I wish that I had that effect elsewhere. You would not have been able to kill the affordable housing trust fund.

While I was the ranking minority member, when I was the senior Democrat of the Housing Subcommittee and then on the full committee, the Republican majority killed virtually every affordable rental housing production program we had. They beat up public housing unmercifully, to the great distress of lower-income people.

I wish I was as persuasive as the gentleman now, I must say, less than convincingly tries to argue. And in fact, no, I do not think I charmed the majority of Republicans.

And, by the way, it was Mr. Baker whom the gentleman correctly identified as the leading opponent of Fannie Mae and Freddie Mac, who said in 2007, when I became chairman and was able to put together the right ingredients in the bill, quote, "With every iteration, it got stronger. It is to the point where I didn't know what else there was to put in there." So I appreciate Mr. Baker's endorsement of the bill which I helped pass.

Now, I do want to address one issue as he closes, and I may expand on this. There was one other point – and we have had a legitimate debate.

But in an article in a publication called Investors Business Daily, to my great dismay circulated by the Republican staff of the Financial Services Committee, I was accused of betraying my oath and my obligation because of a relationship I had with a man who worked at Fannie Mae. And I want to address that scurrilous piece of defamation right now and express my disappointment that people I have worked with on the Financial Services Committee, that their staff, presumably with the approval of somebody, would have circulated such a scurrilous lie.

As we know, there are members in this body who have spouses and partners who are variously employed, and it has never been the rule that you couldn't do anything because your partner is employed. We have a Member of the Republican Party who very conscientiously has been voting "present" recently on some measures because of his wife's position. And the article falsely said that I was having a relationship with a senior executive at Fannie Mae, and that is why I did it.

Now, obviously the fact that it is a gay relationship adds to a certain piquancy with the right-wing when they circulate this sort of vicious defamation.

The fact is that the man with whom I had a relationship graduated from business school in 1990. He was a new MBA. He then went to work in an entry-level position at Fannie Mae and Freddie Mac. He was never a senior executive. He had a working position at Fannie Mae and Freddie Mac.

After eight years, we ended the relationship. He left town. I was by that time a lower ranking member of the committee. The events we are talking about happened many years later after we had separated, when he had, to my knowledge, no financial interest, and he was 3,000 miles away.

No, I have to say to the gentleman from New Jersey, I reject the suggestion that I was so persuasive that the only one issue on which I could prevent a right-wing rampage on the part of his party on the Financial Services Committee, in which I was unable to get decent regulation, in which I was unable to get good subprime lending laws, or I was unable to protect affordable housing – the only thing I was able to do was to stop them from regulating Fannie Mae and Freddie Mac. And that is why a majority of them never took that position and we never got a good bill until I became chairman. No, I think it is something else.

I think it is the fear of the right wing that regulation is coming; that unregulated credit default swaps are going to be no longer the case; that we will have rules that will prevent irresponsible subprime lending. As Mr. Zandi, a great thinker on this, notes in his closing passage: "Regulators didn't create the subprime financial shock, but they did nothing to prevent it."

In other words, no, it wasn't the CRA that did it; it was the lack of regulation that did it. This was the result of first policymakers' distrust of regulation in general, their enduring belief that markets and financial institutions could effectively police themselves; and, second, of the Nation's antiquated regulatory framework. The institutions guiding the Nation's financial system were fashioned during the Great Depression; and, as finance evolved rapidly, they remained largely unchanged, and overhaul was indisputably overdue.

I happen to be chairman of the committee that is going to have a major play in this overhaul, and there are right-wing forces that don't want that to happen. So I accept the fact that I am the target. I don't think it is me, personally. I am not that paranoid. It is that if they can go after me and blame me, and, unfairly, Senator Dodd – who wasn't even the senior Democrat when this was happening. It is particularly far-fetched to blame Senator Dodd. He wasn't even the senior Democrat. The notion that as the second ranking Democrat he was running the Senate I would have thought was too implausible. But, again, we have learned from Swift Boating and elsewhere that vicious right-wing propaganda cannot be allowed to go un-rebutted.

The fact is that, yes, there is this concerted effort, there is this fear that we won't have unregulated subprime mortgages. And we will see this when we bring the bill up, that we won't have any more unlimited credit default swaps and collateralized debt obligations.

It is the fear of regulation that Franklin Roosevelt confronted, that Theodore Roosevelt confronted. It is the fear that the disastrous results of the policy of deregulation have led the American people to understand that the time has come, once again, in our history to adopt a good set of regulations.

I believe that is why there are these lies, distortions, and smears about my record, why I am being held accountable for the 0 for 12 record of the Republican Party. And the time has come to have that debate, because we have learned, I think, that if we wait too long, the lies will stick. And not only will that be bad for reputations; even worse, it will be bad for the public policy we need to prevent a retention.

I yield back the balance of my time.